



Audit Summary

Dennis E. Hoyle, CPA

Acting Auditor General
dennis.hoyle@oag.ri.gov

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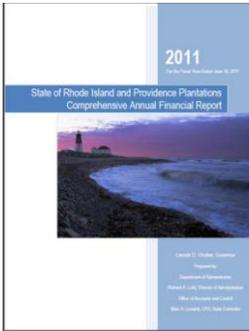
DECEMBER 2011

State of Rhode Island

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2011

We completed our annual audit of the State's financial statements for the fiscal year ended June 30, 2011 as required by the Rhode Island General Laws. The State's financial statements and our Independent Auditor's Report thereon are included in the State's Comprehensive Annual Financial Report (CAFR) for fiscal 2011 which was prepared by the State's Department of Administration.



The CAFR encompasses the entirety of the State's operations including quasi-public entities considered to be component units for financial reporting purposes. The audit was

completed within six months of the close of the State's fiscal year which reflects a continuous effort by this office and the Department of Administration to improve the timeliness of audited financial information for the State.

Fund level financial statements are included in the CAFR as well as government-wide financial statements which include long-term assets and liabilities.

Total net assets of the State increased by \$140.5 million for fiscal 2011. This amount includes governmental and business-type activities (Lottery, Convention Center, and Employment Security) but excludes discretely presented component units.

General Fund revenues and other sources exceeded expenditures and other uses by \$85 million for fiscal 2011. The primary sources of General Fund revenue were taxes (42%) and federal grants (41%).

Within the General Fund, \$64.2 million of fund balance was available for appropriation in fiscal 2012. Remaining fund balance amounts are generally restricted for specific purposes. The Budget Reserve and Cash Stabilization or "Rainy Day" Account was fully funded in compliance with the General Laws and had a balance of \$130.3 million at June 30, 2011.

The Employment Security Fund continued to incur significant expenses for unemployment benefits which totaled \$646 million for fiscal 2011. This necessitated continued borrowing from the federal government to fund these benefits and caused a deficit in the fund of \$153 million at June 30, 2011.

The Employees' Retirement System's net assets increased by \$912 million for the fiscal year primarily due to net income from investing activities. The plan covering state employees and teachers was 61% funded based on a restated June 30, 2010 actuarial valuation, which reflects pension reforms enacted in November 2011.

The State created a trust for its other postemployment benefit (OPEB) programs covering most state employees, participating teachers, and certain employees of the Board of Governors for Higher Education. First year trust operations resulted in net assets of \$15 million which are available for the payment of future benefits.

Other communications resulting from the annual audit will follow separately. These include findings and recommendations related to the State's controls over financial reporting and the *Single Audit Report* which focuses on the State's compliance with federal requirements related to more than \$5 billion of federal assistance. The Single Audit Report is required by federal law and is provided to federal funding agencies as a condition of continued federal assistance.

Audit Highlights

- We expressed unqualified opinions on the opinion units within the State's financial statements.
- General Fund revenues and other sources exceeded expenditures and other uses by \$85 million for fiscal 2011.
- The Budget Reserve and Cash Stabilization or "Rainy Day" Account was fully funded in compliance with the General Laws with a balance of \$130.3 million at June 30, 2011.
- The Employment Security Fund ended fiscal 2011 with a deficit of \$153 million resulting from continued payment of unemployment benefits which also necessitated borrowing from the federal government.
- On a government-wide basis, net assets increased \$140.5 million. Capital assets net of accumulated depreciation totaled \$3.3 billion and long-term liabilities including bonds payable totaled \$3.4 billion.
- Net assets in the pension and OPEB trusts totaled \$7.5 billion.
- The State disclosed contingencies related to a lawsuit filed by unions representing state employees and teachers challenging pension reform measures enacted in 2009 and 2010. Further legal challenges are likely for pension reform measures recently enacted in November 2011.

The State's Fiscal 2011 CAFR is available on our website www.oag.ri.gov and the Office of Accounts and Control website <http://controller.admin.ri.gov/index.php>.